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C O N F I D E N T I A L SECTION 01 OF 04 ALMATY 001068

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SUBJECT: SECRETARY BODMAN MEETING WITH PRESIDENT NAZARBAYEV

Classified By: AMBASSADOR JOHN ORDWAY. REASONS: 1.4 (B, D)

11. (C) SUMMARY: Secretary Bodman met President Nazarbayev for nearly an hour on March 14. Bodman conveyed President Bush's desire to send VP Cheney to Kazakhstan in May, and invite Nazarbayev to the White House in the early fall. Nazarbayev accepted both parts of the proposal, but said that his visit to Washington required substance, noting as examples broader U.S. investment, education, and establishing a bilateral working group. Nazarbayev said that Kazakhstan aspires to be a reliable energy supplier to Europe and the world, and that the presence of U.S. companies in this sector is "priority number 1." He said Kazakhstan is ready to sign the BTC IGA, and that the ball is in Azerbaijan's court. He noted difficulties in achieving Russian agreement to expand CPC, and to agree to the transit of Kazakhstani oil to Lithuania to facilitate purchase of the Mazeiku refinery. Discussing Iran, he said the country had the wrong President, which was leading to an unacceptable effort to obtain nuclear weapons, as well as creating conditions which made transit of Kazakhstani oil problematical. He strongly urged that the U.S. not use military options against Iran. On Central Asia, he said he would be visiting Uzbekistan shortly to encourage Karimov to open the economy, admitting that this was still unlikely. He was pessimistic on Uzbekistan's stability, bemoaned Kyrgyzstan's weakness, offered little optimism on Tajikistan, and had only caustic comments about Turkmenistan. He spoke at length, and with emotion, about Russia and its role, saying bluntly that Kazakhstan is not happy with many developments there as Putin tries to build a stronger state. Noting the imperialistic, colonial attitude of Russians during the Soviet era, he said that the current middle generation has been unable to overcome this heritage. Kazakhstan, despite being a good neighbor, suffers from Russian discrimination and intolerance. Nonetheless, he said that isolation and confrontation would be counterproductive, and urged continued U.S. engagement with Russia, including in the G-8 context. END SUMMARY

Invitation

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12. (C) Bodman began the meeting by extending congratulations on behalf of President Bush on Nazarbayev's impressive election victory. He said that the President has asked Vice President Cheney to call on President Nazarbayev in early May, and was asking Nazarbayev to visit him in the White House in the early fall. The President, Bodman said, looks forward to seeing Nazarbayev personally. (NOTE: After Nazarbayev entered, TV and still cameras were brought into the meeting room and began shooting from a position outside Secretary Bodman's line of sight. This invitation was seen

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and heard by a large number of cameramen. To date, only one TV channel has carried a report about the Vice President's visit, and it has not received any further play. END NOTE)

13. (C) President Nazarbayev noted that he had met President Bush in Moscow in May 2005, and the President had promised to send the Vice President to Kazakhstan. Now, a year later, he was hearing the confirmation that the President was a man of his word. He said that he welcomed the Vice President's visit in early May, noting only that the exact dates would have to be agreed. He said that he in turn would be happy to visit the White House, but added that he wanted that visit to have substance. Bodman also expressed gratitude for Kazakhstan's contribution to the war on terrorism, and in particular its military contingent in Iraq.

14. (C) Nazarbayev then immediately launched into an extensive monologue that included a number of diverse points of existing and possible future bilateral cooperation:

-- Kazakhstan and the U.S. had accomplished much in many areas over the past 14 years. Now, he was trying to industrialize the economy.

-- Kazakhstan was pursuing mining, developing machine building for the oil and gas sector, establishing technoparks for biotech, IT and medical technology, as well as science centers.

-- Nazarbayev wanted American partners to help build a world-class educational center, including a high-class university to train managers and engineers.

-- Developing value-added agriculture processing was important, Nazarbayev said, noting that 60 percent of the population lived in rural areas but only produced 20 percent of the GDP. The country's large wheat harvests, along with cotton, meat and wool, all could be processed.

-- He also said Kazakhstan wants to attract more small and medium-sized businesses.

-- Energy cooperation remains important.

-- Kazakhstan, he said, was "switching" to Boeings and wanted to establish a regional maintenance center with Boeing. (Note: There's a factual disconnect here. The major domestic carrier has had an all-Boeing leased fleet that it is now beginning to enlarge with wet-leased Airbuses, and one additional wet-leased Boeing. On the positive side, this remark by the President is further, and authoritative, confirmation that Boeing is leading in the about-to-be released RFP for the purchase of aircraft. On the other hand, we are unaware of any Boeing plans for a maintenance center in Kazakhstan, especially given the existing Boeing center in Uzbekistan. END NOTE)

-- Economic partnership will bring the two countries closer, and build the basis for political and other cooperation.

-- We should establish two working groups, and reach agreements. (At another point in the conversation, he elaborated on this idea. He noted the Clinton-era Gore-Nazarbayev Commission as a model, and proposed that this new group be headed on the Kazakhstan side by the Prime Minister or Deputy Prime Minister, and perhaps at the ministerial level on the U.S. side.)

-- He said he would be pleased to visit the U.S., perhaps around the time of the UNGA, and asked Bodman to convey his thanks to President Bush for this proposal.

Energy: Supplier to the world, but pipeline woes

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15. (C) Nazarbayev outlined a strong vision of Kazakhstan as a major and reliable supplier of energy to Europe and the world community, striving to be a good partner in supplying oil and gas. In this connection, he said that "the presence of U.S. companies is priority number one in our partnership." He noted that U.S. firms had invested \$10 billion, a figure that should double within five years. Kazakhstan aspired to be one of the top 10 oil producers by 2015. He said that as a land-locked country, the biggest challenge was delivering to markets. Kazakhstan wanted diversity of export routes. Lots of effort had gone into CPC, and he was working on its expansion. The pipeline to China had been completed, and a 700 km extension to the Caspian would be completed in two years. Kazakhstan supported the BTC pipeline, and was optimistic about signing the IGA soon: the ball, though, is in Azerbaijan's court. Three tankers have been ordered to transport the oil to Baku, and Azerbaijan would supply additional tankers. The first stage envisioned shipping 10 million tons a year, but that would be expanded.

16. (C) Nazarbayev said that the country's "big neighbors" were not happy with these developments. He said that what made Russia happy made China unhappy, and vice versa. Kazakhstan regarded the two countries as good friends and neighbors, but it needed to carry out its own policies -- which in fact were not damaging the interests of either China or Russia. Nazarbayev said that Kazakhstan wants to purchase the Mazeikiu Nafta refinery in Lithuania, and has made the highest offer. A Russian company, Rosneft, and a Polish company, were also still bidding. The winner would have to provide crude to the refinery, which eliminated the Polish concern. Kazakhstan needed Russia's cooperation to transport its crude to the refinery. The Russian side had seemed to be cooperative, but now this was uncertain.

17. (C) Bodman said he would be meeting with Central European energy ministers in Budapest, who are worried about energy security and supplies in light of the recent experience of Ukraine and Georgia. They are interested in LNG from Algeria, and possibly nuclear energy. What advice would Nazarbayev have?

18. (C) Nazarbayev said that if Russia were not between them, there would be a beautiful solution. A great idea for the future is a trans-Caspian gas pipeline that would allow gas supplies via a much shorter route than from Siberia. BTC was another important route for energy that could benefit Central Europe. Kazakhstan was trying to convince the concerned parties to reverse Odessa-Brody pipeline northward as an outlet for Caspian oil from Novorissysk to reach Central Europe. However, for Europe there was no complete alternative to Russian natural gas.

19. (C) Nazarbayev complained that Russia had blocked Kazakhstani attempts to sell gas to Georgia at any price cheaper than what Russia was charging. He added that Kazakhstan is becoming a major investor in Georgia, and said that he liked Saakashvili more than Yushchenko. He said that Ukraine was a completely different situation, and predicted that they would have a very tough parliamentary election in which no one would get a majority. He also predicted that the new parliament might also attempt to unseat Yushchenko by arguing that the third round that elected him was unconstitutional.

Iran

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10. (C) Nazarbayev said that the most feasible and profitable route for Kazakhstani crude was through Iran. However, all the American oil companies objected. Nazarbayev said that any change in this situation would require a new President in Iran, and said that he hoped a new one would be better than the current one. He acknowledged that Iran was seeking nuclear weapons, and said he was trying to persuade the Iranians to give this up. Kazakhstan had done so, and found that its security had not gotten worse, but had improved. Asked by Bodman for advice on how to deal with Iran, Nazarbayev said above all "don't repeat Iraq in Iran." He said that Kazakhstan "is totally on your side" in saying no to nuclear weapons, and continuing to put pressure on the Iranians. He said that Russia now seemed to recognize the danger in this, especially for itself. The worst scenario would be to bomb Iran, which would create an outburst of rage unlike Afghanistan or Iraq, and which could cause global destabilization.

Future of Energy

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11. (C) Nazarbayev asked about President Bush's State of the Union remarks about reducing dependence on imported energy. Bodman said that DOE was researching possible partial alternatives, including ethanol fuels from cellulose for automobiles. However, this depended on the results of research that was not yet completed. Bodman suggested that local Kazakhstani grasses might be used to produce ethanol. Nazarbayev noted jocularly that Kazakhstan did not have an oil deficit, but added that Kazakhstan was indeed interested in alternative energy sources, including solar, wind and nuclear. He said that he would like to cooperate with the U.S. in these areas, especially on nuclear.

Central Asia: Problems everywhere

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12. (C) Bodman noted American interest in Kazakhstan playing a leadership role in Central Asia. Nazarbayev said, laughing, that he would be happy to do so, but that the U.S. should not mention this idea to the others -- all of whom thought they should be the leader. Nazarbayev said that he would shortly be visiting Uzbekistan and would attempt to persuade President Karimov to open up his economy, although he doubted this would be successful. Nazarbayev said he had proposed a Central Asian economic union to allow the five countries to help develop the region -- and Karimov proceeded to invite in the Russians. He criticized Karimov's character as damaging the country's development, and noted that wages one-tenth the level of Kazakhstan's resulted in nearly a million Uzbek "guest workers." The threat of domestic destabilization in Uzbekistan, he said, was very high.

13. (C) Turning to the other countries in the region, he said that Kyrgyzstan is very weak, poor, and burdened by excessively high external debt. Tajikistan was still emerging from its civil war and has not decided which way to go. Turkmenistan, he said, was the "worst example of a planned economy," whose President's actions had ranged from shutting down the opera to abolishing pensions, and whose cult of personality knew almost no bounds.

14. (C) Nonetheless, important processes were going on in the region, including in Afghanistan. The region was on the threshold of a major transformation.

Russia: Coping with post-empire stress syndrome

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15. (C) Nazarbayev began an extended soliloquy on Russia by saying that Putin was trying to get the country under control by strengthening state structures. Kazakhstan was not happy with all that was going on in Russia. Moreover, rapid liberalization in Kazakhstan was seen by its neighbors as a bad example. Russians, Nazarbayev explained, by nature need a gun in their hands. All state officials in czarist Russia wore uniforms. All Russians continued to live on the memory of World War II.

16. (C) In the Soviet period, Russians were the main nationality everywhere. All others were second-class citizens, even in their own homelands. The most important

posts belonged to Russians. Then the USSR collapsed, and Russians lost their privileged position. In Kazakhstan, for example, at independence 90 percent of the army officers were ethnic Russians; now the percentages were exactly reversed. Post-Soviet Russia is no longer a superpower. Their self-esteem is low, and they are boiling with pain. This especially affects the middle-aged generation. Russians need time to become normal people.

¶17. (C) Nazarbayev said that Kazakhstan feels the impact of Russia every day. One example: rail tariffs are two times higher for Kazakhstan than for domestic freight. This is despite the fact that Kazakhstan is a good neighbor. Russia simply wants to show that it is strong. Nazarbayev said that when he goes to Moscow, he tells the Russians that they have the largest territory in the world, that they are extremely rich in natural resources -- what else could they want? This is enough to bring richness to their people. Nazarbayev said that he argues that Kazakhstan and Russia are neighbors, and should meet as equals. However, Russia does not want to do so, they won't treat Kazakhstan as they treat even Poland or Finland.

¶18. (C) Nazarbayev said that there were parts of Russian policy that neither the U.S. nor Kazakhstan liked, but that this cannot be avoided. The worst way of dealing with this would be to push them away and isolate them. This would not hurt the Russians, but "would hurt the situation here." The U.S. needed to employ a very "delicate" policy toward Russia, inviting Russia to participate in international organizations, increasing relations, and trying to influence the leadership as was done with Yeltsin. Nazarbayev said that he meets often with Putin. Putin understands that he needs to work closely with the U.S., and understands that confrontation is useless. With the help of American influence and the injection of American capital, gradually we can all influence Russian policies.

¶19. (C) Nazarbayev concluded that the current Russian elite will retain power for a long time. It is very good that Russia is in the G-8 and other international organizations. It is necessary for them to upgrade their relations with the U.S. "Let them think they are players."

COMMENT

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¶20. (C) Nazarbayev is clearly inclined to develop his country's energy resources, and energy policies, along market-oriented geostrategic lines that largely coincide with our own thinking. His emphasis on CPC expansion and joining BTC is an old theme. What was new was the vision of being a stable and strategic energy supplier to eastern Europe (including Georgia), tempered by hard-headed realism regarding the challenges of overcoming short-sighted Russian policies and obstructionism. The accumulated problems of Russian blockage of CPC expansion, Russian-established prices for Kazakhstani gas, crippling rail tariffs, and potential Russian double-dealing on the Lithuanian refinery deal may have combined to produce an unusually candid, and devastatingly accurate, picture of post-Soviet Russia's aggressive inferiority complex and its impact on Kazakhstan. Unlike other residents of what Russia calls its "near abroad," Nazarbayev and Kazakhstan have cards and the skill to play them. However, not all of their hands are winners -- and this remains galling to Nazarbayev.

¶21. (U) This cable has been cleared by Secretary Bodman's party.  
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